Supporting Statement for the
Central Bank Survey of Foreign Exchange and Derivatives Market Activity
(FR 3036; OMB No. 7100-0285)

Summary

The Board of Governors of the Federal Reserve System, under delegated authority from the Office of Management and Budget (OMB), proposes to conduct a voluntary survey of the foreign exchange and derivatives markets, the Central Bank Survey of Foreign Exchange and Derivatives Market Activity (FR 3036; OMB 7100-0285). The FR 3036 is the U.S. part of a global data collection that is conducted by central banks every three years. More than fifty central banks plan to conduct the survey in 2004. The Bank for International Settlements (BIS) compiles national data from each central bank to produce global market statistics.

The Federal Reserve System and other government agencies use the survey to monitor activity in the foreign exchange and derivatives markets. Respondents use the published data to gauge their market share.

The proposed survey has two parts: a Turnover survey conducted in April and a Derivatives Outstanding survey conducted at the end of June. The Turnover portion (Attachment 1) would cover approximately sixty market-making financial institutions. The Derivatives Outstanding portion (Attachment 2) would cover a smaller set of firms (twenty) since it is collected on a consolidated basis and market making in derivatives is more concentrated. The Derivatives Outstanding portion of the survey is coordinated with the Semiannual Report of Derivatives Activity (FR 2436; OMB No. 7100-0286), which is filed by a subset of the FR 3036 respondents. Those respondents that file the FR 2436 would only file a supplementary, one-page table (Attachment 3), a shorter version of the FR 3036, thus limiting the reporting burden associated with this survey. The estimated burden for this information collection is 3,945 hours.

Background and Justification

The survey has been conducted every three years, beginning informally in the 1960s as the Federal Reserve Bank of New York's (FRBNY) survey of the New York foreign exchange market. The survey expanded beyond foreign exchange in the 1980s to include interest rate and other types of derivatives. It also became part of a global data collection effort, with participation growing to forty-eight central banks in 2001 and more than fifty in the coming year. The global nature of financial markets requires a global, coordinated collection of data to obtain data on the size and structure of these markets. As with the last five triennial surveys, the BIS will use the aggregate data of each central bank to produce global market estimates.

The survey is the only comprehensive source of global information on the volume of foreign exchange and derivatives trading, and as such, is useful to the Federal Reserve System and other government agencies in understanding market developments and trends. The data also provide information for analyzing market developments and conducting Federal Reserve and U.S. Treasury foreign exchange operations. Survey data are also used by market participants to gain a perspective on the market that is not available from data at the firm level. Academics and the general public also use the survey's data for research and analysis.

The proposed survey covers the spot foreign exchange market and over-the-counter derivatives markets in foreign exchange, interest rates, equities, and commodities in the United States. Combined with the survey data of the other central banks, it would provide global data on these markets. Although the Federal Reserve System and the U.S. Treasury collect information on outstanding foreign exchange contracts of banks and some non-banks, these reports do not collect information on the volume of transactions (turnover) and their coverage of the markets is more limited.

Description of Information Collection

The proposed survey would collect information on the size and structure of the foreign exchange and over-the-counter derivatives markets. The survey would cover the volume of transactions (turnover) in the foreign exchange spot market, the foreign exchange derivatives market, and interest rate derivatives markets (forwards, swaps, and options). In addition, the survey would gather data on the notional amounts and gross positive and negative market values of outstanding derivatives contracts for over-the-counter foreign exchange, interest rates, equities, and commodities.

To reduce reporting burden, the Derivatives Outstanding part of the survey is coordinated with the FR 2436 report. The survey would use the data from the regular June report of the firms that submit the FR 2436. Those firms would only complete an abbreviated report.

Differences between the proposed survey and the last survey are as follows:

1. The pre-survey questionnaire has been eliminated. In the past, this questionnaire was used to determine the final reporting panel. The questionnaire is no longer necessary since the panel size has been reduced reflecting an interest in attracting and retaining participation by key respondents.

2. Two cells were added to the Turnover survey to capture information on related party trades included in "Total FX" and "Interest Rate" contracts. This information on the proportion of reported turnover conducted within global financial institutions that include reporting dealers is needed to gain perspective on the overall reported market turnover and to compare and analyze differences across reporters.

3. A table in the Turnover survey on trading volumes through electronic-based systems has been expanded to collect more detailed information on types of systems and instruments. In recent years, experience with electronic-based systems has varied across different markets with some firms successfully growing their business but others, particularly on the interest rate side, leaving the business. Against this background, the more detailed breakdown would

provide perspective on the role and importance of these systems in different segments of the market.

Reporting Panel

The reporting panel for the Turnover portion of the survey would decline to sixty institutions in 2004 from the eighty-four that participated in 2001. This decline reflects the continued consolidation among market participants and an increased emphasis on limiting reporting to market-making dealers. Dealers were identified for the survey based on 1) market shares in the previous survey; 2) *Euromoney*'s annual foreign exchange market survey; and 3) foreign exchange and interest rate contracts reported as held for trading by U.S. bank holding companies on the Consolidated Financial Statements for Bank Holding Companies (FR Y-9C; OMB No. 7100-0128) and by U.S. branches and agencies of foreign banks on the Report of Assets and Liabilities of U.S Branches and Agencies of Foreign Banks (FFIEC 002; OMB No. 7100-0032).

The market's interdealer brokers will not be surveyed as in years past since most of them have discontinued the business. In 2001, participation by brokers had declined to four brokers from ten in 1998. The expansion of the table on dealers' use of electronic systems will provide some of the information that had previously been obtained directly from the brokers.

The reporting panel for the Derivatives Outstanding portion of the survey would consist of twenty U.S banking and nonbanking institutions that are dealers for the Turnover portion of the survey and who actively trade in the over-the-counter derivatives market. This represents a decline from twenty-six participants in 2001.

Time Schedule for Information Collection and Publication

The turnover data would include all trading conducted during April 2004. The outstanding positions would be as of end of June 2004. The choice of the month of April for turnover data continues the practice of previous surveys. April was selected to avoid strong seasonal effects in the foreign exchange market at other times of the year. Collecting data on outstanding contracts as of end of June reduces reporting burden by allowing the use of June data from the FR 2436. In addition, April and June are the dates other central banks will be conducting their surveys and adoption of those dates is critical for the aggregation of consistent global statistics.

The survey forms would be mailed or emailed by and returned to FRBNY, and all data would be processed at the FRBNY. Market totals from the survey would be published by FRBNY. The market totals would also be provided to the BIS for its published report on global trading.

Legal Status

The Board's Legal Division has determined that this report is authorized by law (12 U.S.C. 248(a), 353-359, and 461) and is voluntary. Individual respondent data are regarded as confidential under the Freedom of Information Act (5 U.S.C. 552 (b)(4)).

Consultation Outside the Agency

This survey is being coordinated by the BIS.

Estimates of Respondent Burden

As shown in the table below, the total reporting burden is estimated to be 3,945 hours to be incurred on a one-time basis in 2004. This represents less than 1 percent of total Federal Reserve System burden.

	Number of respondents	*Annual frequency*	*Estimated hours per response*	*Estimated annual burden hours*
Turnover: Financial Firms	60	1	51	3,060
Outstanding: Non-FR 2436 reporters	13	1	60	780
Outstanding: FR 2436 reporters	7	1	15	105
Total				3,945

Based on a cost of $20 per hour, the estimated annual cost to the public is $78,900.

Sensitive Questions

This collection of information contains no questions of a sensitive nature, as defined by OMB guidelines.

Costs to the Federal Reserve System

The cost of collecting and processing the FR 3036 data falls entirely on the FRBNY and is estimated at $600,000.

Attachments